



LG&E Energy LLC
220 West Main Street (40202)
P.O. Box 32030
Louisville, Kentucky 40232

March 9, 2004

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RECEIVED

MAR 09 2004

PUBLIC SERVICE
COMMISSION

Thomas M. Dorman
Executive Director
Kentucky Public Service Commission
211 Sower Boulevard
Frankfort, Kentucky 40602-0615

RE: *Investigation Into The Membership of Louisville Gas and Electric Company and Kentucky Utilities Company In The Midwest Independent Transmission System Operator, Inc. – Case No. 2003-00266*

Dear Mr. Dorman:

Enclosed please find an original and ten (10) copies of Louisville Gas and Electric Company's and Kentucky Utilities Company's responses to the Post-Hearing data request dated February 27, 2004, in the above-referenced docket.

Should you have any questions concerning the enclosed, please do not hesitate to contact me directly at 502-627-4110.

Sincerely,

John Wolfram
Manager
Regulatory Affairs

cc: (w/enclosure): Parties of Record

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

RECEIVED

MAR 09 2004

PUBLIC SERVICE
COMMISSION

In the Matter of:

INVESTIGATION INTO THE MEMBERSHIP OF)
LOUISVILLE GAS AND ELECTRIC COMPANY)
AND KENTUCKY UTILITIES COMPANY IN THE) CASE NO. 2003-00266
MIDWEST INDEPENDENT TRANSMISSION)
SYSTEM OPERATOR, INC.)

RESPONSE OF
LOUISVILLE GAS AND ELECTRIC COMPANY
AND
KENTUCKY UTILITIES COMPANY
TO THE POST-HEARING DATA REQUEST OF COMMISSION STAFF
DATED FEBRUARY 27, 2004

FILED: MARCH 9, 2004

**LOUISVILLE GAS AND ELECTRIC COMPANY
AND
KENTUCKY UTILITIES COMPANY**

CASE NO. 2003-00266

**Response to Post-Hearing Data Request of Commission Staff
Dated March 1, 2004**

Question No. 1

Responding Witness: Michael S. Beer

- Q-1. Please provide signed copies of the letters sent by the Southern Governors to President Bush and to Congress.
- A-1. See Attachment.

February 3, 2004

The Honorable George W. Bush
President of the United States
The White House
1600 Pennsylvania Avenue, MW
Washington, DC 20500

Dear Mr. President:

As chief executives of Southern states, would like to express our sincere appreciation of you working with Congress to protect electricity consumers from FERC's radical and unprecedented electricity restructuring proposals. However, as a region we remain extremely concerned that FERC is aggressively moving forward with a series of actions that will coerce RTO participation, preempt state law, and exceed the commission's own statutory authority. In fact, FERC stepped up these efforts as soon as the Energy bill failed to pass the Senate at the end of the session.

In November, FERC issued a preliminary order directing the Eastern region of American Electric Power Company to join the PJM interconnection over state objection, particularly the states of Kentucky and Virginia. In that order, FERC declared that section 205(a) of PURPA provides it with the legal authority to override state law and mandate that a utility join an RTO, even though PURPA was written 20 years before the concept of an RTO came into existence. We are concerned that after a final order is issued in this case, FERC could use this decision as precedent to preempt any state law requiring a finding of net public interest on transmission issues and to mandate its own vision and definition of an RTO throughout the country. In December, FERC announced it intends to renew its focus on the controversial Supply Margin Assessment proposal – a market-based pricing policy that would essentially prevent large vertically integrated electric companies from obtaining market-based rates (and provide ratepayer credit) for excess generation that they do not use to serve their bundled retail load, unless those companies join an RTO. This proposal appears to be an attempt to coerce the utilities in the Southern region to join RTOs.

Recent FERC orders and public pronouncements also appear to signal that FERC has concerns with the way that state-jurisdictional, rate-regulated and vertically integrated electric utilities plan for and purchase the generation requirements for their bundled retail load. Since most of the electric utilities in our region are vertically integrated and are required by our state statutes to build or buy generation at the lowest possible cost to serve their rate-regulated retail customers, it would be of great concern if these recent orders and pronouncements indicate a FERC effort to dismantle our state-regulated system. FERC has also indicated it may issue rules mandating reliability standards, even though FERC lacks clear statutory authority to do so. Only state utility commissions currently have statutory authority to ensure and enforce reliable electric service. We recognize the need for mandatory reliability standards. However, we believe Congress is the appropriate body to institute the mandate and the North American Electricity Reliability Council is the proper entity to implement mandatory standards.

SGA Letter on Electricity Restructuring
February 3, 2004
Page 2

These recent FERC actions signal a clear attempt by FERC to utilize creative mechanisms to force electric utilities to join RTOs regardless of the economic merit or benefits to ultimate ratepayers in the affected states. Also, by virtue of requiring the RTO to fit FERC's particular definition, we view these actions as a backdoor attempt by FERC to implement its Standard Market Design (SMD) proposal without regard to regional differences or regional benefit. FERC appears to be engaged in a forced march towards implementing its vision of national competition and is determined to replace guaranteed cost-based rates for generation with market-based prices for generation and transmission service, regardless of the increased costs to consumers.

The Southern governors remain adamantly opposed to these and other efforts by FERC to force risky and untested electricity restructuring proposals on regions of the country that have chosen to remain rate-regulated with vertically integrated utilities that provide reliable, efficient, and low-cost electric service. It is a fact that our regulatory system is responsible for our low rates, lack of volatility, and lack of reliability concerns. We have made prudent investments in infrastructure which, in addition to providing the best possible electric service to our citizens, contributes to our ability to attract industry to our region and provide employment and enhanced quality of life opportunities for our residents. It is not only unfair, but economically very dangerous, to ask Southern states to be subjected to FERC's academic electricity competition models. It is our regulatory model, not FERC's, that has and will continue to result in low rates, appropriate infrastructure investment, and reliable electric delivery service.

As debate resumes on the comprehensive energy bill, we ask that you continue to work with members of Congress to support an energy bill that contains provisions which will protect the availability of transmission service for native load customers, provide that participation in RTOs is voluntary so that states can ensure net cost-effectiveness, establish the requirement for "participant funding" of transmission investment for those states that desire that pricing approach, and impose at least a three-year delay of SMD. We strongly support these provisions and urge you to work with Congress to preserve them in the energy bill.

Sincerely,



Mike Huckabee, Arkansas

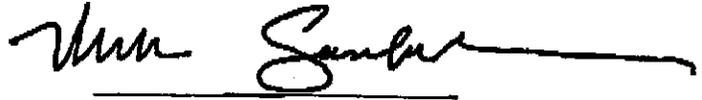


Sonny Perdue, Georgia

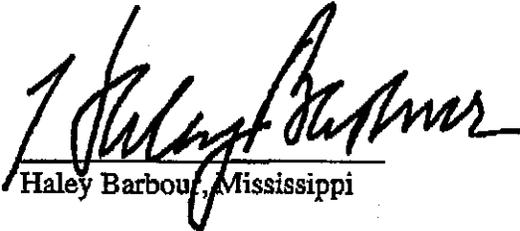
SGA Letter on Electricity Restructuring
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Page 3



Bob Holden, Missouri



Mark Sanford, South Carolina



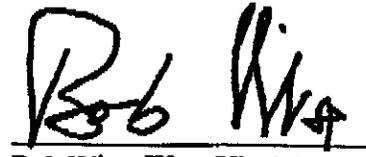
Haley Barbour, Mississippi



Michael F. Easley, North Carolina



Kathleen Babineaux Blanco, Louisiana



Bob Wise, West Virginia



Ernie Fletcher, Kentucky

cc: The Honorable Richard B. Cheney Vice-President of the United States
The Honorable Spencer Abraham, Secretary of Energy

February 3, 2004

The Honorable Pete Domenici
Senate Energy and Natural Resources Committee
364 Dirksen Senate Office Building
Washington, DC 20510

The Honorable W.J. "Billy" Tauzin
House Energy and Commerce Committee
2125 Rayburn House Office Building
Washington, DC 20515

Dear Chairmen:

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SGA Letter on Electricity Restructuring
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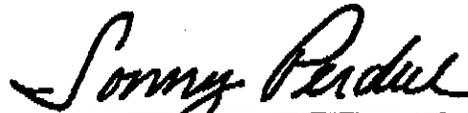
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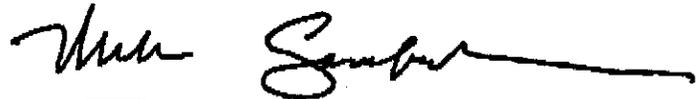
Mike Huckabee, Arkansas

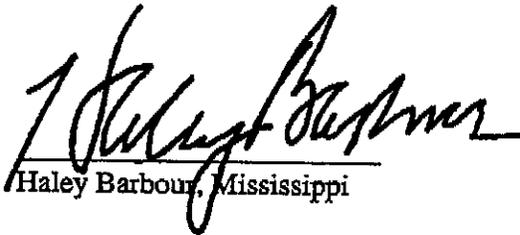


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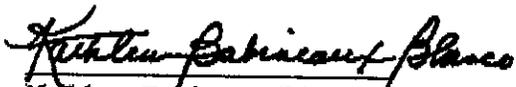
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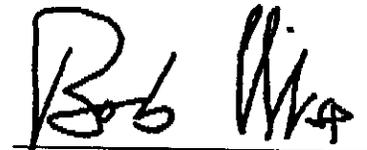

Bob Holden, Missouri

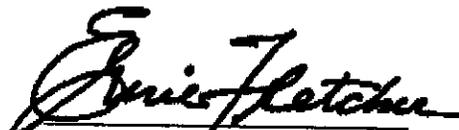

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cc: The Honorable Richard B. Cheney Vice-President of the United States
The Honorable Spencer Abraham, Secretary of Energy

**LOUISVILLE GAS AND ELECTRIC COMPANY
AND
KENTUCKY UTILITIES COMPANY**

CASE NO. 2003-00266

**Response to Post-Hearing Data Request of Commission Staff
Dated March 1, 2004**

Question No. 2

Responding Witness: Paul W. Thompson

- Q-2. What companies have exited MISO after they became members?
- A-2. The companies that signed the MISO Transmission Owner's Agreement and have since exited MISO are Ameren, Illinois Power and Exelon (Com Ed).

**LOUISVILLE GAS AND ELECTRIC COMPANY
AND
KENTUCKY UTILITIES COMPANY**

CASE NO. 2003-00266

**Response to Post-Hearing Data Request of Commission Staff
Dated March 1, 2004**

Question No. 3

Responding Witness: Paul W. Thompson

- Q-3. On what date did LG&E/KU turn over to MISO operational control of their transmission system?
- A-3. MISO assumed operational control of the Companies' critical high voltage facilities (>100 KV and having an impact of >5% on critical MISO flowgates) on February 1, 2002. However, the Companies' retain all other incidents of ownership of those transmission facilities.

**LOUISVILLE GAS AND ELECTRIC COMPANY
AND
KENTUCKY UTILITIES COMPANY**

CASE NO. 2003-00266

**Response to Post-Hearing Data Request of Commission Staff
Dated March 1, 2004**

Question No. 4

Responding Witness: Michael S. Beer

Q-4. What is the total amount LG&E/KU has paid to MISO for all services since it began operations?

A-4. The MISO related expenses and revenues for LG&E/KU for the years 2002 and 2003 are reported below.

2002 LG&E/KU's Transmission Revenue
\$15,231,814

2002 LG&E/KU's Transmission Expenses (excluding Schedule 10)
\$13,753,095

2002 LG&E/KU's Schedule 10 Expenses
\$7,367,149

2003 LG&E/KU's Transmission Revenue
\$22,498,901

2003 LG&E/KU's Transmission Expense (excluding Schedule 10)
\$23,934,773

2003 LG&E/KU's Schedule 10 Expenses
\$5,097,853

**LOUISVILLE GAS AND ELECTRIC COMPANY
AND
KENTUCKY UTILITIES COMPANY**

CASE NO. 2003-00266

**Response to Post-Hearing Data Request of Commission Staff
Dated March 1, 2004**

Question No. 5

Responding Witness: Michael S. Beer

Q-5. Please provide the level of MISO-related FERC assessments charged to LG&E/KU for the years 2000, 2001, and 2002.

A-5.

FERC Administrative Assessment History

<u>Year</u>	<u>Combined LG&E/KU Assessment</u>
2000	\$654,151
2001	\$472,113
2002	\$535,476
2003 (a)	\$1,131,400

(a) This figure is the Companies' share of FERC assessment to MISO, and represents the total the Companies' have paid and will pay in the future for the 2003 assessment.

**LOUISVILLE GAS AND ELECTRIC COMPANY
AND
KENTUCKY UTILITIES COMPANY**

CASE NO. 2003-00266

**Response to Post-Hearing Data Request of Commission Staff
Dated March 1, 2004**

Question No. 6

Responding Witness: Mathew J. Morey

- Q-6. Please provide a recalculation of the MISO exit obligation for LG&E and KU, assuming the effective date of withdrawal is December 31, 2004.
- A-6. LG&E and KU ("Companies") have prepared a recalculation of the exit obligation for the combined Companies under an assumption that the effective date of withdrawal is December 31, 2004. The work paper is attached as Exhibit MJM-6. The exit obligation is estimated to be \$28.3 million. The increase of \$4.5 million from the Companies' original estimate of \$23.8 million is the result of using the net capital cost obligation for MISO of \$507.9 million, which was drawn from Attachment to LGE/KU #44, page 1, Witness Holstein.

Response to Kentucky PSC Staff Data Request: Recalculation of Exit Obligation Calculation of LG&E/KU Exit Obligation Assume Exit 12/31/2004		Exhibit MJM-6
Line 1	Net Obligations of MISO 12/31/2004 ¹	\$ 507,912,111
Line 2	Aggregate Billing Determinants (millions MWh) ²	
Line 3	MISO	700
	LG&E/KU	39
Line 4	LG&E/KU pro rata share (Line 3 / Line 2)	5.57%
Line 5	Exit Fee -- Line 4 multiplied by Line 1	\$ 28,297,960
Notes		
1	Net obligations of MISO equals sum of net obligations for Schedules 10, 16 & 17, see Attachment to LGE/KU #44, p. 1, Witness Holstein	
2	Aggregate billing determinants drawn from original worksheet, see Exhibit MJM-3	